led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting.

366. The Q1 2005 10-Q also included signed certifications from Michael Dell and Schneider stating:

> 1. I have reviewed this Quarterly Report on Form 10-Q of Dell Inc.;
>
> 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
>
> 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
>
> 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
>
> > (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
> >
> > (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
> >
> > (c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal

quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

367. Michael Dell and Schneider also filed certifications pursuant to 18 U.S.C. §1350, "that (a) Dell's Quarterly Report on Form 10-Q for the quarter ended April 30, 2004, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Dell."

368. Michael Dell and Schneider knew, or recklessly disregarded, that the statements contained in their signed certifications filed with the Q1 2005 10-Q were materially false and misleading when made because, as admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting. Additionally, Michael Dell and Schneider's

Section 1350 certifications were false because Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

J. Rollins Touts Dell's Growth

369. On August 12, 2004, Rollins was quoted in a story carried by the *Dow Jones Newswire* in which he stated, "We've seen very good growth."

370. Rollins knew, or recklessly disregarded, that Dell's growth was based on misstated figures which, *inter alia*, improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements."

K. Second Quarter 2005 (For The Quarter Ended July 30, 2004)

1. Second Quarter 2005 Earnings Release

371. On August 12, 2004, Dell issued an earnings release announcing its financial results for the quarter ended July 30, 2004 (the "Q2 2005 Earnings Release"). The Q2 2005 Earnings Release, which was filed with the SEC as an exhibit to Form 8-K, contained the

following false and misleading financial information relating to the Company's second quarter results:

	In Millions of Dollars (except per share data)
Net Revenue	$11,706
Operating Income	$1,006
Net Income	$799
Earnings Per Share	$0.31
Gross Margin	$2,134
Stockholders' Equity	$6,207
Total Liabilities	$13,725

372. Commenting on Dell's reported figures, the Q2 2005 Earnings Release stated:

> [Dell] showed its unique ability to both grow rapidly in key markets and achieve strong profitability again in the company's fiscal second-quarter 2005, which ended July 30. Dell revenue was $11.7 billion, a company record and 20 percent higher than in the same quarter a year ago. Sales in Europe, the Middle East and Africa and in Asia-Pacific and Japan rose 30 and 29 percent, respectively. Combined revenue for enterprise systems, including servers and storage systems, accounted for 22 percent of overall sales, matching a company high.
>
> Earnings per share were 31 cents, 29 percent higher and also a Dell record. Results were consistent with revised company guidance in mid-July, which included an increase in earnings expectations.

373. The Q2 2005 Earnings Release also included the following statements from Defendant Rollins touting Dell's performance:

> We start with the marketplace advantage of a more efficient, more customer-focused way of doing business. . . . And our global team is consistently disciplined in applying that business model. . . . ***Like our shareholders, our expectation is for volume and share growth along with solid profitability. Those objectives aren't mutually exclusive.***

(emphasis added)

374. Rollins also predicted that Dell's success would continue into the third quarter. As stated in the Q2 2005 Earnings Release, "According to Mr. Rollins, Dell's third-quarter product shipments should be 21 percent higher than in the same year-ago period. Such growth is

expected to produce quarterly revenue of about $12.5 billion, up 18 percent, and earnings per share of 33 cents, a 27-percent increase."

375. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income, earnings per share and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

376. Defendants also knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions."

2. Second Quarter 2005 Earnings Conference Call

377. On August 12, 2004, Dell held a conference call to discuss second quarter FY 2005 earnings ("Q2 2005 Earnings Call"). On the Q2 2005 Earnings Call, Defendant Schneider stated: "[W]e posted record revenue with double-digit growth across all products, segments, and regions, coupled with enhanced overall profitability. Quarterly operating income was in excess of $1 billion, a company record. We delivered improved margin sequentially by focusing on profitable growth in key products and geographies."

378. Further, in the Q2 Earnings Call, Defendant Rollins stated: "Dell again demonstrated consistency of execution as we hit our guidance to investors for the 14th consecutive quarter. Our strategy of driving profitable share growth is working exceptionally well and we continue to outperform the market."

379. Rollins further stated: "Rather than chasing market share indiscriminately at the cost of margins we drove our business in those products, customer segments, and geographies where we could do so profitably, particularly in the enterprise."

380. Schneider further stated:

> [W]hen we saw a lot of business that didn't look profitable for us we didn't go after it and focused on the places where we thought we could do the best. I think in this quarter, when component costs go down – again, this is the great thing about it, because if you look at that time last couple of quarters it's the worst component cost environment that we've had in a long time. ***And this is where people talk about how maybe Dell can't achieve its targets in that kind of environment, and we clearly not only hit our targets, but beat them.*** And I think what's happening on the third quarter we're seeing it get back closer . . . maybe a .5% a week of cost declines, and we perform a lot better in that environment. So then we look to maybe take a little bit more share and try to balance passing those costs through to our customers. But also trying to retain a little bit so we can get that operating income percentage up.

(emphasis added).